



# Health Services

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*To ensure access to high-quality,  
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residents through direct services at  
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November 8, 2011

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

## **RECOMMENDATION FOR DELEGATED AUTHORITY TO EXECUTE THE COMMUNITY HEALTH PLAN TRANSITION AND SAFETY NET SUPPORT AGREEMENT WITH L.A. CARE HEALTH PLAN (ALL SUPERVISORIAL DISTRICTS) (3 VOTES)**

### **SUBJECT:**

Request delegated authority to execute an agreement to structure the long-term financial relationship with L.A. Care Health Plan (L.A. Care) to serve as the framework for the implementation of the policy direction approved by your Board to transition the Community Health Plan (CHP) staff to serve as the Medical Service Organization (MSO) function for the Department of Health Services (DHS), concentrate DHS resources on being the key provider of health care for Medi-Cal and uninsured populations in Los Angeles County, and transition all lines of business from the CHP to L.A. Care to assume all health plan functions.

### **IT IS RECOMMENDED THAT YOUR BOARD:**

Delegate authority to the Director of Health Services, or his designee, to execute an agreement with L.A. Care to structure the long-term financial relationship between L.A. Care and the County and to provide for the orderly transfer of health plan operations from CHP to L.A. Care, effective on date of Board approval through December 31, 2021, subject to review and approval by County Counsel and prior notification to your Board and the Chief Executive Office (CEO).

### **PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

On April 13, 2010, your Board approved, in concept, the report and recommendations by Health Management Associates (HMA) on its evaluation of the DHS Office of Managed Care (OMC)/CHP and its readiness for pending health reform changes. In addition, your Board approved the CEO convening DHS and L.A. Care representatives to engage in negotiations to determine whether a new relationship, as outlined in the HMA report, could be developed.

# ADOPTED

BOARD OF SUPERVISORS  
COUNTY OF LOS ANGELES

#20 NOVEMBER 15, 2011

*Sachi A. Hamai*  
SACHI A. HAMAI  
EXECUTIVE OFFICER

One of the specific parts of the HMA recommendation to begin negotiations on the new relationship was to:

"Conduct an independent audit to determine the real 'profits' generated by CHP. LA Care would then agree to maintain the same level of profitability for the County."

On August 16, 2010 the County retained Macias, Gini and O'Connell LLP (MGO), an independent audit firm jointly selected by the County and L.A. Care to conduct a financial review of CHP. Consistent with one of the recommendations included in the HMA report, MGO performed an agreed upon procedure report (financial review) to analyze the profitability of CHP, the County's Knox-Keene licensed health plan. On February 14, 2011, the CEO provided the final report prepared by MGO for review by your Board.

On March 1, 2011, your Board approved a recommendation to negotiate and execute Medi-Cal Managed Care provider agreements with L.A. Care for Seniors and Persons with Disabilities (SPDs), effective March 1, 2011 through September 30, 2014, upon review and approval by County Counsel and the CEO, and with notice to your Board. Two provider agreements were negotiated and executed, effective May 1, 2011.

On March 29, 2011, your Board approved my policy recommendation that DHS transition the CHP staff to serve as the MSO for DHS, concentrate DHS resources on being the key provider of health care for Medi-Cal and uninsured populations in Los Angeles County, and transition all lines of business from the CHP to L.A. Care to assume all health plan functions, such transition occurring gradually over the subsequent year.

On July 26, 2011, your Board approved delegated authority for contractual actions necessary to transition the Medi-Cal Managed Care and Healthy Families enrollees from CHP to L.A. Care, with the transition scheduled for January 1, 2012, and October 1, 2012. Amendments to the provider agreements with L.A. Care to include the remaining non-SPD Medi-Cal enrollees have been completed and were executed, effective October 1, 2011.

Delegated authority for contractual actions necessary to transition the IHSS enrollees is contained in a separate Board letter, pending consideration by your Board, because it has the added complexity of agreements involving the Department of Public Social Services and the Personal Assistance Services Council, the employer of record for IHSS workers.

The specific rates and division of financial responsibility (DOFR) are contained in the provider agreements. These rates will change from year to year, based on changes in the rates paid to L.A. Care by the State and based on funding provided for the IHSS

Health Plan. In order to frame the provider agreements in the context of a longer-term financial agreement and in order to assure the continued "profitability" as recommended in the HMA report, L.A. Care and the negotiating team have developed a long-term financial agreement for the financial support of the DHS safety net system, as detailed below.

### **Implementation of Strategic Plan Goals**

The recommended action supports Goal 4, Health and Mental Health, of the County's Strategic Plan.

### **FISCAL IMPACT/FINANCING**

MGO reported net income for CHP from all lines of business of \$24.9 million in FY 2007-8, \$23.8 million in FY 2008-09, and \$26.2 million in FY 2009-10. The CHP net income for those years must be offset by DHS net cost of treating this group of patients [including out of plan costs], estimated at \$11.3 million per year. This would result in net value to DHS of no more than \$12.5 to \$14.9 million per year, or about 5% of total revenues. [If claims payable are calculated according to the DHS CHP methodology, the net value in FY 2009-10 is reduced to \$6.9 million.]

The primary value of the CHP to DHS over the years has been the revenue it brings in for patients who receive their care in the DHS system. Thus, in negotiating this long-term agreement, the parties focused on three key elements, which will provide the basis for ongoing funding for DHS:

1. In the IHSS product line, since DHS provides most of the care to enrollees, L.A. Care will retain funds to pay for its actual administrative costs [but no more than the administrative costs incurred by CHP to manage this product line] and the costs of the limited community provider agreements, and then provide the balance of the premium to DHS to fund the care of these enrollees.
2. Within each of the other product lines and major groupings of enrollees [Medi-Cal SPDs, other Medi-Cal, and Healthy Families], L.A. Care and DHS will agree on a target number to be assigned to DHS, as a provider, for their primary care home, to maintain DHS' share of the enrollees.
3. The financial terms for the financial support from the L.A. Care Health Plan to the DHS, which are comprised of the rates paid to DHS, less the stated administrative expenses, are confidential and not subject to disclosure. These provisions are protected as proprietary and also subject to Section 1457 of the Health and Safety

Code, among other confidentiality provisions and public record exemptions. This information is provided to your Board under a separate confidential memorandum.

The combination of these financing provisions is estimated to provide DHS with at least as much "profitability" as CHP provided. The elimination of the costs of running a small health plan should leave DHS in a better financial position.

The funds allocated to L.A. Care's quality improvement program for the County will be used for investments in the DHS Ambulatory Care Network to prepare it for health care reform. Examples of such investments are acquisition and maintenance of electronic systems to implement the MSO function, purchase of equipment, and contracted services not provided by the County.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

This agreement is designed to be a multi-year agreement, framing the longer-term relationship between the County and L.A. Care, recognizing that the provider agreements will be amended regularly, based on changes in State capitation rates and program requirements.

To provide for the orderly transition of the CHP's health plan operations to L.A. Care, the CHP Transition and Safety Net Support Agreement will include the following provisions:

1. Mutual indemnification between the parties,
2. The County will retain financial and other legal responsibilities as appropriate prior to the transition date. L.A. Care will assume financial and other legal health plan responsibilities thereafter,
3. Each party will maintain certain recordkeeping responsibilities as appropriate.
4. The parties will establish payment to the County of any of its CHP accounts receivables that exist following the transition date.


This transition includes a separate agreement between DHS and L.A. Care which will establish DHS as a contracted provider for the CHP members to be transitioned to L.A. Care. Due to the fact that these provider agreements include many of the County standard provisions, and the unique nature of this CHP Transition and Safety Net Support Agreement, certain standard County provisions will not be included. DHS will work with County Counsel and CEO in finalizing the terms of this Agreement.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

Successful implementation of these agreements, consistent with the policy recommendations approved by the Board on March 31, 2011, is part of the overall restructuring of DHS ambulatory care, as part of DHS' plan to reallocate resources and attention (e.g. to have CHP staff focus solely on performing the MSO function for DHS providers) to meet the needs under the 1115 Waiver.

Respectfully submitted,



 Mitchell H. Katz, M.D.  
Director

MHK:JFS:jp

c: Chief Executive Office  
County Counsel  
Executive Office, Board of Supervisors  
Auditor-Controller